

For almost a decade, the Pew Center on the States, Governing Magazine and a group of academic experts have collaborated on this project to assess the quality of management in state government.

CHARTING THE COURSE FOR EXCELLENCE IN GOVERNMENT PERFORMANCE

Virginia

A-

Amid growing concerns among Americans about job stability, health care and education, there is a new demand for government to work better and cost less. Innovative solutions, particularly at the state level, are driving reform and progress.

Virginia has long been at the forefront of that innovation, implementing a smart system of strategic planning tied to real results in state budgeting. The state also consistently leads the field in human resources management. Virginia has an opportunity to strengthen its performance further through an increased focus on infrastructure assessment and capital management.

Executive Summary

Smart long-term planning is one reason Virginia has long been one of the best managed states in the country. Performance measures guide budgeting and management decisions. Sound strategies provide the state with high-quality employees and information technology (IT) without great expense.

Virginia uses state and agency strategic plans to achieve social goals by linking program and managerial performance measures. These measures are tracked online so that the public can easily see the results. Strategic IT planning also is tied closely with performance and delivers savings to the state through innovative agency investments.

Virginia takes a sound, long-term approach to money management but has scrambled to balance revenues and expenditures in today's uncertain economic climate. The procurement system links to the federal system to take advantage of discounts available to the state and local governments.

Virginia is a leader in human resources management. Human capital planning and good data help agency decision makers plan for the future. Virginia's knowledge management system allows officials to offer training to new workers to give them the skills and information that have helped the current workforce succeed.

Virginia has a multiyear capital planning process. It does not have criteria to help set priorities in the selection of buildings projects, but it has a good system for public input

TAKING ACTION

Key Recommendations

The Government Performance Project's team of management analysts offers the following suggestions. State policy makers and business leaders may wish to consider:

People

- Examining the cause of turnover of new hires and of employees in the first three years
- Encouraging joint goal setting for employee performance appraisals between supervisors and employees

Information

- Expanding the capacity of the Joint Legislative Audit and Review Commission to enable a larger number of performance audits to be conducted
- Encouraging analysts to explore the appropriateness of performance measures, the results of state agency activities and the causes of performance trends over time
- Redoubling efforts to ensure that performance measures are accurate and methodologically sound

Money

- Developing a long-term plan to maintain structural balance
- Striving to fully fund the state's pension obligations

Infrastructure

- Developing criteria to prioritize capital project selection
- Assessing the condition of all state buildings on a regular basis
- Reducing deferred maintenance of the state's general infrastructure

in plan development. Virginia recently developed a capital asset management system, though it does not conduct regular comprehensive condition assessments of its buildings.

THE PEW CENTER ON THE STATES' Government Performance Project

The Pew Charitable Trusts applies the power of knowledge to solve today's most challenging problems. Pew's Center on the States identifies and advances effective policy approaches to critical issues facing states.

The mission of the **Government Performance Project**, an initiative of the Pew Center on the States, is to improve service to the public by strengthening government policy and performance. The Project evaluates how well states manage employees, budgets and finance, information and infrastructure. A focus on these critical areas helps ensure that states' policy decisions and practices actually deliver their intended outcomes.

www.pewcenteronthestates.org

PEOPLE

A

Strategic Workforce Planning

The commonwealth has a strategic plan for management of human resources (HR) that identifies current and future needs and is linked to the human capital plan. Virginia has readily available comprehensive data about its current and future workforce needs that it uses to make decisions involving human capital management. The commonwealth has evaluated and updated its classification, compensation and management systems and implemented emergency workforce planning.

Hiring

Hiring is handled at the agency level. The commonwealth has taken several innovative approaches to recruiting. It uses branding, recruitment outreach and internship opportunities for targeted positions such as auditors. It has posted hard-to-fill positions on private job Web sites and contracted with a private company that hires and handles administration for foreign-born nurses.

Retaining Employees

Voluntary turnover in Virginia is slightly higher than the national average. Most classified employees who leave do so after one to three years of service, though another 27 percent of turnover comes from employees with 11 or more years of service.

The commonwealth has taken an aggressive approach to address employee retention, offering various flexible fringe benefits that amount to nearly 50 percent of salary. Managers are implementing market-adjusted broad pay plans and monetary rewards. Virtually all employees are eligible for a pay-for-performance program. Virginia has avoided salary compression; few employees are at the top of their pay grades.

Training and Development

Training and development are high priorities for the Virginia workforce. The commonwealth builds training programs for future employees based on the practices and skills of current employees. Employees may register for training sessions and discuss strategic training—often linked to employee career paths—with teams or with supervisors through the state's Commonwealth of Virginia Knowledge Center. Perhaps most important, employees (even before they are hired) can see

PERFORMANCE

- Strategic Workforce Planning
- Hiring
- Retaining Employees
- Training and Development
- Managing Employee Performance

○ weakness ● mid-level ● strength

TAKING ACTION

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the structured job roles the Department of Human Resources Management has created to help employees follow potential career paths and the steps necessary to advance.

Managing Employee Performance

Virginia is below the national mean in appeals filed per 1,000 classified employees. Annual employee performance appraisals link job descriptions, individual employee goals and career plans with the key objectives of their agencies. The commonwealth has eight “competencies” for employees, but each agency can adjust them as needed. The competencies are used in a variety of HR functions from recruitment through performance evaluation.

PEOPLE

Perspectives on this area of state performance:

People form the living core of any organization.

To assess state performance in the People category, the Government Performance Project team examined how well a state manages its employees. Among many other factors, the team reviewed how states hire, retain, develop and reward high-performing employees.

Given the challenges of an aging workforce, new expectations of younger workers and competition for top performers with the private and nonprofit sectors, the ways in which a state conducts business in this crucial area are vital to its ability to serve the public.

Grades in the People category ranged from A in Virginia to D in New Hampshire and Rhode Island. The national average among the 50 states for the People category was C+, and ten states received that grade. Twenty-three states earned grades above the national average (grades of B- and above), and 17 states received grades below the national average (C and below).

A number of promising new practices in recruitment strategies and leadership development emerged from this year’s study. The Project will provide additional detail on these practices in the coming months.

INFORMATION

A

Strategic Direction

Virginia is reaping the management and budgeting benefits of a comprehensive information-gathering process. For the policy areas that comprise the majority of commonwealth spending, the state's strategic plan includes goals expressed in results. The results are discussed in the contexts of current performance levels, historic performance levels and facts that affect commonwealth-wide performance—and all are linked to measures and agency programmatic and management performance.

Virginia has a comprehensive strategic IT plan, which includes a matrix linking each of the plan's goals to those in the state's strategic plan. The goals are linked with agency activities aimed at improving performance and include measures that help assess progress. Through an innovative private partnership, Virginia is developing new technological infrastructure without raising the IT budget. The Enterprise Solutions Group also provides a fund for innovative agency ideas that require seed capital; the agencies can repay the money through their savings.

Budgeting for Performance

All agencies are required to submit strategic plans that meet commonwealth-wide specifications. The Department of Planning and Budget provides a guide agencies may use in linking those plans to performance budgets. The governor's budget enumerates the state's goals as well and creates a clear relationship between spending and achievement of commonwealth-wide goals.

Virginia has an impressive performance reporting system, called Virginia Performs, which is available to the public through the state's Web site. For each agency, visitors can view either summary measures or a complete listing, including efficiency, output, outcome and accreditation measures. The database includes performance targets and benchmarks, along with methodology and trend information. Agencies and the governor use the Virginia Performs goals and performance information to guide budgeting and program management in order to support and improve Virginia's performance in key areas. Although the performance reporting system is generally strong, a 2006 report from one state's Auditor of Public Accounts indicated that some of the performance measures suffered from methodological and data entry errors.

PERFORMANCE

- Strategic Direction
- Budgeting for Performance
- Managing for Performance
- Performance Auditing and Evaluation
- Online Services and Information

○ weakness ● mid-level ● strength

TAKING ACTION

Suggestions that state policy makers and business leaders may wish to consider:

- Expanding the capacity of the Joint Legislative Audit and Review Commission to enable a larger number of performance audits to be conducted
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- Redoubling efforts to ensure that performance measures are accurate and methodologically sound

Managing for Performance

Service-area plans facilitate management by linking an agency's services to its goals and then to the commonwealth's overarching goals. Agencies must describe each specific service area and how it contributes to the goals of the agency's strategic plan. In addition, the plan must assign each objective a numbered priority relative to all the other objectives and list performance measures that will be used to assess progress. Each agency also is evaluated in the core management measures (HR, procurement, financial management, performance management and resource stewardship).

Performance Auditing and Evaluation

The Joint Legislative Audit and Review Commission is the primary performance auditor in Virginia. The commission conducts about a dozen audits each year, but both the scope and quantity of these audits appear somewhat limited for a state the size of Virginia. Some audits appear to cover medium-sized or narrow programs such as foster care funds and underground electricity lines. While these were quality performance audits, they tended to focus either on legal compliance (foster care) or technical details (underground electricity lines). Other audits focused more on results, such as a report on children's residential services, which discussed the health and safety of at-risk children, or a report on recent errors in sales tax allocations.

Online Services and Information

Virginia's Web site provides access to the usual services but also includes comprehensive information about every agency's performance and progress toward goals. The site also offers a live-chat feature during business hours and an e-mail service for times when no operator is online.

The site provides links to comprehensive information on performance measures and government accountability. With very few exceptions, the commonwealth's entire revenues and expenditures are online. Anyone can track nearly all receipts and spending.

INFORMATION

Perspectives on this area of state performance:

Advances in information technology offer the promise of propelling every organization toward greater efficiency and accomplishment. Growing demands for public-sector transparency and for 24/7 public access to services are spurring a new level of creativity in meeting citizens' needs and improving internal business processes.

To evaluate performance in the Information category, the Government Performance Project examined how well state officials deploy technology and the information it produces to measure the effectiveness and results of state programs, make budget and other management decisions and communicate with one another and the public.

Grades in the Information category ranged from A in five states (Michigan, Missouri, Utah, Virginia and Washington) to D+ in New Hampshire and South Dakota. The national average among the 50 states for the Information category was B-, and 13 states received that grade. Fifteen states earned grades above the national average (grades of B and above), and 22 states received grades below the national average (C+ and below).

The study uncovered a number of promising new practices that are engaging the public, streamlining business processes, and improving the quality and utility of the information upon which state leaders rely to make policy and program decisions. The Project will provide additional detail on these practices in the coming months.

MONEY

A-

Long-Term Outlook

Virginia takes a solid approach to its long-term finances, with a sound consensus revenue estimating process, a good tax expenditure budget and strategic planning that promotes the long-term benefits of expenditure decisions. Virginia is one of eight states with an AAA bond rating from all three rating agencies from 2004 to 2006. At times, in recent years, its contribution to pension funds has been below the actuarially required contribution, but pension funding ratios are close to the national mean.

Budget Process

Each executive branch agency must justify its budget requests in terms of its strategic plan, and that plan must be aligned with the administration's overall agenda. Budget requests must include proposed performance measures and targets that demonstrate a relationship between funding and outcomes. The budget office prepares a six-year financial plan that lays out commonwealth spending and revenue.

Structural Balance

The commonwealth makes a strong attempt to maintain structural balance. In October 2007, when it faced a \$600 million shortfall, Virginia cut \$300 million from its ongoing programs and took the remainder from its budget stabilization fund.

Virginia has made tax changes in 15 of the last 20 years to maintain structural balance.

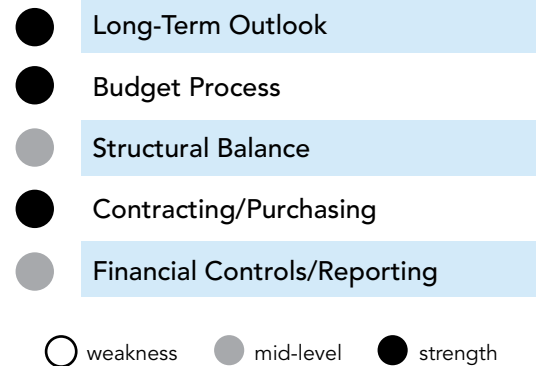
Contracting/Purchasing

Virginia's online procurement system is one of the nation's most comprehensive. The state has encouraged local governments to use the system and has helped them do so. The result has been increased efficiency at all levels of government and significant savings as well.

Financial Controls/Reporting

Virginia has funded 14 new positions for an internal risk-management group based in the comptroller's office. These officials will be embedded in agencies to catch weaknesses before they materialize as audit qualifications. Twice a year, the audit team reviews areas it considers high risk and conducts

PERFORMANCE



TAKING ACTION

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business-process audits for select areas of the government. Virginia produces timely financial reports, and all receive clean opinions.

MONEY

Perspectives on this area of state performance:

Having adequate financial resources and managing them well allows states to turn policies into results that matter for people. A state's fiscal systems are especially important in navigating today's uncertain economic climate.

To gauge how well a state is functioning in the Money category, the Government Performance Project evaluated the degree to which a state takes a long-term perspective on fiscal matters, the timeliness and transparency of the budget process, the balance between revenues and expenditures, and the effectiveness of a state's contracting, purchasing, financial controls and reporting mechanisms.

Grades in the Money category ranged from A in Utah to D+ in California and Rhode Island. The national average among the 50 states for the Money category was B-, and ten states received that grade. Twenty states earned grades above the national average (grades of B and above), and 20 states received grades below the national average (C+ and below).

Transparent financial transactions and unfettered public access to fiscal information have become two of the leading indicators of a state that is functioning well in this area. Several promising new practices in real-time tracking of statewide expenditures and budgeting decisions, as well as joint executive and legislative revenue forecasting approaches, are highlighted in this year's study. The Project will provide additional detail on these practices in the coming months.

INFRASTRUCTURE

B+

Capital Planning

The capital plan is complete and includes a multiyear prioritized listing of projects, estimated operating and maintenance costs and funding sources. Agencies submit prioritized six-year capital plans to the Department of Planning and Budgeting, and the governor uses those plans in the commonwealth's biennial budget process. The state does not have specific criteria for prioritizing project selection. When agencies are notified that their needs are a priority, they must develop more technical and financial plans for such projects.

Project Monitoring

Inspections occur frequently, and reporting on each project occurs weekly. Costs are monitored monthly for overruns, and reporting takes place at least weekly for delays, safety compliance, quality and efficiency.

Maintenance

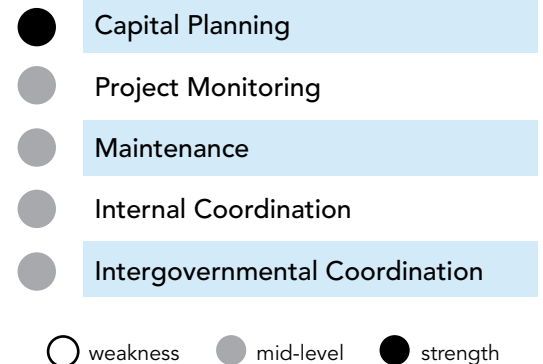
Virginia faces substantial deferred maintenance costs as calculated by the new facility inventory and condition assessment system. The state has increased maintenance funding to address that issue. The biennial condition assessments conducted by the state through the new system lack historical information on assets, which is important for maintenance estimates.

The Department of Transportation (DOT) has adopted a life-cycle approach to asset management. The state legislature encourages a "maintenance first" approach and has added \$200 million in ongoing funding in the most recent biennium. DOT has broad latitude to transfer money from construction projects to maintenance. The \$8.3 billion in funds available for DOT over the next six years include a 4 percent inflationary factor associated with expected revenues. DOT fully funds its maintenance needs and reports no deferred maintenance.

Internal Coordination

The Division of Engineering and Buildings oversees construction and capital outlay projects and maintains all state buildings. The commonwealth promotes interagency cooperation among the departments and agencies responsible for airports, rail transportation and ports.

PERFORMANCE



TAKING ACTION

Suggestions that state policy makers and business leaders may wish to consider:

- Developing criteria to prioritize capital project selection
- Assessing the condition of all state buildings on a regular basis
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Intergovernmental Coordination

The commonwealth actively collaborates with local communities and regions by providing funding, training and resources for transportation projects. It also provides meetings, written guidelines and a Web site for its partners in such efforts. While Virginia does not participate in federal facilities coordination, it does collaborate with other states to address common infrastructure needs in regional corridors.

INFRASTRUCTURE

Perspectives on this area of state performance:

A state's capital assets are the literal crossroads of the effects of the other three categories—People, Information and Money.

Incidents such as the Minneapolis bridge collapse and the levee failures in New Orleans after Hurricane Katrina prove that few functions of state government—in partnership with the federal government and other jurisdictions—have a greater impact on people's daily lives than maintaining and securing the state's infrastructure.

To assess how well a state is managing its roads, bridges and buildings, the Government Performance Project team factored the degree to which a state has transparent and effective capital planning and project monitoring processes, maintains its assets and coordinates this work within the state and with other jurisdictions.

Grades in the Infrastructure category ranged from A in Utah to D+ in Massachusetts and New Hampshire. The national average among the 50 states for the Infrastructure category was B-, and ten states received that grade. Seventeen states earned grades above the national average (grades of B and above), and 23 states received grades below the national average (C+ and below).

In assessing how states select, prioritize, monitor and maintain their infrastructure projects over the long term, the Project found a variety of laudable practices. The Project will provide additional detail on these practices in the coming months.

STATE	OVERALL PERFORMANCE GRADES									
Utah VIRGINIA Washington									A-	
Delaware Georgia Michigan Missouri Texas								B+		
Indiana Iowa Louisiana Maryland Nebraska							B			
Arizona Connecticut Florida Idaho Kansas Kentucky Minnesota New Mexico New York North Carolina North Dakota Ohio Pennsylvania South Carolina Tennessee Vermont Wisconsin Wyoming						B-	— NATIONAL AVERAGE			
Alabama Colorado Hawaii Mississippi Montana Nevada Oklahoma Oregon South Dakota West Virginia					C+					
Alaska Arkansas California Illinois Maine Massachusetts New Jersey				C						
Rhode Island			C-							
New Hampshire		D+								
	D	D+	C-	C	C+	B-	B	B+	A-	A
NATIONAL AVERAGE						B-				

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The Project grades but does not rank states. All states within a given grade category receive the same grade and are listed alphabetically.

Glossary

Following are some of the factors the Project team considered in evaluating state performance. For a list of the detailed criteria, visit www.pewcenteronthestates.org/gpp.

Asset Condition Index (ACI): A standard means of determining an asset's current and future physical condition. ACI is calculated by dividing the dollar amount needed for annual repairs by the amount that would be needed to replace the asset. There are three levels of condition: Good (0 to 5 percent), Fair (5 to 10 percent), and Poor (greater than 10 percent).

Benchmarks: Baselines against which the performance of government programs may be measured. The three most common types of benchmarks are past performance levels of the program, performance levels of similar programs in other states or agencies, and performance targets established by law or policy. Other possible types of benchmarks include targets set by federal regulations and standards prescribed by professional organizations.

Bidder preference: Advantage given to vendors meeting specific criteria in the bidding process for state product or service contracts.

Broadbanding: A technique that consolidates the number of salary grades into fewer but broader pay ranges. The spread of the pay ranges is wider, and there is less overlap among various pay ranges.

Capital budget: The spending plan for the year for building or acquiring major infrastructure projects, balanced against revenues or other financial resources. Although states often approve separate capital and operating budgets, capital projects also may be funded in the operating budget. For each item in the capital budget, costs may include those for the structure or land as well as related costs for original furniture and equipment.

Capital plan or capital improvement plan: A financial plan for the improvement of state-owned infrastructure assets over several years, including such proposed projects as buildings, roads, bridges, parks, dams and land.

Capital planning process: A formal assessment of a state's future infrastructure needs. The review may consider demographics, service demand, public input, federal regulations, health and safety concerns, resource availability and other factors.

Competency management system: A process by which an organization develops and manages specific models that include skills and behaviors needed for specific employee positions. These models may then be used in recruitment and hiring, performance appraisal criteria, and training and development.

Contracting: The process by which the state obtains necessary services from nongovernmental vendors. (Note: We consider contracting for services different from procurement of goods or products.)

Consensus forecasting: A process through which a panel of experts creates a forecast by mutual agreement. For a state's revenue forecast, included experts may include officials from the executive branch and legislature, as well as outside academic researchers, private consultants or citizens.

Earmarked revenue: A source of revenue designated by law or state constitution to support a specific program or agency. By definition, "earmarked revenue" cannot include taxes imposed on specific goods, services or businesses; taxes on sale of fuels other than motor fuels; or refunds of fuel taxes.

E-procurement: A system utilizing Internet technology to streamline the purchases of goods and products to reduce costs.

Human capital plan: A plan for employing, developing and evaluating the workforce of an organization to achieve the organization's strategic goals and objectives. The plan typically is broader than a strategic plan or workforce plan, though it contains elements of both.

Information technology (IT) plan: A statewide plan to improve the state's information technology systems that assesses future needs to achieve the state's overall goals and objectives.

Knowledge management system/strategy: The process of gathering, organizing, sharing and using the knowledge and experiences of employees within an organization to improve performance. Knowledge management includes a wide range of personal and technological approaches to sharing knowledge.

Leadership development program: A training and education program to prepare participants for leadership or senior management positions within the state or agency.

Glossary (continued)

Life-cycle approach: An approach to infrastructure maintenance that aims to keep capital assets in good working order for at least as long as they were originally designed to last.

Maintenance deferral: The act of postponing necessary operating and maintenance spending on an infrastructure asset.

Operating budget: The annual spending plan for the state's recurring expenses, including salaries, equipment and repairs (as distinct from expenses to build or acquire permanent infrastructure).

Performance: The accomplishments of an agency, program or employee relative to stated goals and objectives.

Performance appraisal: An evaluation of how well an employee performs his or her job in relation to a set of predetermined standards.

Performance-based compensation: A type of employee compensation based on demonstrated accomplishments on the job.

Performance audits: Audits that focus primarily on the effectiveness of an agency or program in meeting its objectives (rather than on legal or financial compliance issues).

Performance management system: A comprehensive process used to measure, improve and reward the performance of agencies, programs or employees.

Performance measures: Indicators of progress toward meeting prescribed objectives. Common measures for evaluating performance include outputs, outcomes and efficiency.

Procurement: The process by which the state obtains necessary goods or products from nongovernmental vendors. (Note: We consider procurement of goods or products different from contracting for services.)

Rainy-day fund: A type of contingency fund in which money is set aside to be drawn upon in case of a future budget deficit. It often is referred to as a budget-stabilization fund.

Salary compression: Inequity in employee pay occurring when the range of pay between the highest and lowest paid employees is unfairly small relative to their range of skills and experience.

Strategic plan: A comprehensive plan for accomplishment in relation to stated goals and objectives. Ideally, the plan should cover multiple years, include targets for expected accomplishments and propose specific performance measures to evaluate progress toward those targets.

Structural balance: A condition in which ongoing revenues meet ongoing expenses in a given fiscal year (excluding one-time expenses or revenues).

Succession planning: A process of systematically and deliberately preparing for future changes of leadership in key positions. The process may identify potential replacements and provide strategies for developing and/or hiring individuals to meet future needs.

Tax expenditure budget: A report showing the estimated reduction in state revenues attributable to tax credits, deductions and exclusions included in the state tax code.

Workforce plan: A plan assessing the current and future capacity of a state government or agency workforce, including actions necessary to meet future workforce needs.